

CORRECTED

No. 15831

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

SANI-TOP, INC., a corporation,

Appellant,

vs.

NORTH AMERICAN AVIATION, INC., a corporation,

Appellee.

APPELLEE'S BRIEF.

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IN THE

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Appellant,

vs.

NORTH AMERICAN AVIATION, INC., a corporation,

Appellee.

APPELLEE'S BRIEF.

Appellee's Statement of the Case.

Appellant's statement is inaccurate¹ and presents a distorted version of the record.

¹On page 6 of Appellant's Opening Brief it is said, "defendant North American insisted upon inspecting the premises of plaintiff Sani-Top to determine exactly *what process plaintiff Sani-Top was practicing in January, 1958.*" (Italics appears in Appellant's Brief.) This statement is *not* correct; the motion and order granting the inspection particularly limited the inspection to one which was "exemplary of a postforming operation" during the period ending "September 30, 1956." (Order dated December 30, 1957, Denying Defendant's Motion for Stay of Action and Granting Plaintiff's Motion for Order Requiring Defendants to Allow Plaintiff to Inspect Defendants' Postforming Operation. Books and Records.) Also, this motion and order were made *after* the District Court granted the Motion to Dismiss.

The Herzig affidavit referred to on pages 3, 4, and 6 of Appellant's Opening Brief was filed on December 28, 1957, as a part of a Motion in this Circuit Court for Stay directed to the two contract cases. This was filed *after* the Motion to Dismiss was granted and was *not* before the District Court when it granted the Motion to Dismiss.

Three Cases Are Involved.

1. North American's action against Sani-Top, Inc., to recover royalties under the license contract. This is case No. 20723-TC, United States District Court, Southern District of California, Central Division.

2. North American's action against Bonded Products Co. to recover royalties under the license contract. This is case No. 20724-TC, United States District Court, Southern District of California, Central Division.

These two contract cases were filed on November 13, 1956, and were consolidated for trial. An interlocutory order, after trial, has now been filed, dated May 12, 1958, in favor of North American and against Sani-Top, Inc., and Bonded Products Co.

3. The instant appeal No. 15831. This is an appeal by Sani-Top, Inc., from an adverse judgment of dismissal of a declaratory relief action in which patent invalidity was alleged. The action below was commenced on July 9, 1957, by Sani-Top, Inc., against North American in the United States District Court, Southern District of California, Central Division, No. 83957-TC.

On December 28, 1957, under this same file number 15831, Sani-Top, Inc., filed a motion in this Circuit Court for a stay of the two royalty contract cases which were set for trial on January 14, 1958, in the District Court. This Circuit Court denied the motion, after argument, on January 8, 1958.

Chronology of the Three Cases.

| Date | N.A.A. v. Sani-Top, Inc. No. 20723-TC (Action to recover royalties) | N.A.A. v. Bonded Products Co., No. 20724-TC (Action to recover royalties) | Sani-Top v. N.A.A. No. 83957-TC 15831 Ninth Cir. (Declaratory Relief as to validity of patent) |
|------------|--|--|---|
| 0, 1951 | Non-exclusive license contract executed. | | |
| 27, 1953 | | Non-exclusive license con- tract executed. | |
| 0, 1956 | Third quarter 1956 ends. | Third quarter 1956 ends. | |
| 0, 1956 | Royalties for 3rd quarter 1956 payable. | Royalties for 3rd quarter 1956 payable. | |
| 2, 1956 | Sani-Top gives Notice of Termination as of Jan. 1, 1957; or repudiation on Oct. 22, 1956, if possible. | Bonded Products gives Notice of Termination as of Jan. 1, 1957; or repu- diation on Oct. 22, 1956, if possible. | |
| 3, 1956 | Complaint for Royalties accrued to Sept. 30, 1956, filed. | Complaint for Royalties accrued to Sept. 30, 1956, filed. | |
| 0, 1956 | Answer filed. | Answer filed. | |
| 1, 1956 | Fourth quarter 1956 ends. | Fourth quarter 1956 ends. | |
| 1957 | License contract ends. | License contract ends. | |
| 0, 1957 | Royalties for fourth quar- ter 1956 payable. | Royalties for fourth quar- ter 1956 payable. | |
| 1957 | Motions to dismiss and to strike affirmative defenses and cross claims filed. | Motions to dismiss and to strike affirmative defenses and cross claims filed. | |
| n 27, 1957 | Defendant's Interrogator- ies filed. | Defendant's Interrogator- ies filed. | |
| 4, 1957 | NAA's Objections to De- fendant's Interrogatories filed. | NAA's Objections to De- fendant's Interrogatories filed. | |
| 3, 1957 | Court Argument of Mo- tions to Strike and to Dis- miss directed to affirma- tive defenses and cross claims alleging patent in- validity; also Objections to Interrogatories. | Court argument of Mo- tions to Strike and to Dis- miss directed to affirma- tive defenses and cross claims alleging patent in- validity; also Objections to Interrogatories. | |

| Date | N.A.A. v. Sani-Top, Inc. No. 20723-TC (Action to recover royalties) | N.A.A. v. Bonded Products Co., No. 20724-TC (Action to recover royalties) | Sani-Top v. N.A. No. 83957-TC 15831 Ninth Cir. (Declaratory Relief as to validity of patent) |
|----------------|--|--|---|
| May 14, 1957 | Order filed Granting Pltf's Motion to Strike portions of Deft's Answer and Cross Claim and Sustaining Objections to Certain Interrogatories. | Order filed Granting Pltf's Motion to Strike portions of Deft's Answer and Cross Claim and Sustaining Objections to Certain Interrogatories. | |
| July 9, 1957 | | | Complaint for declaratory relief filed. |
| Sept. 17, 1957 | | | Motion to Dismiss complaint filed. |
| Sept. 26, 1957 | | | Pltf's Interrogatories to Defendant and to Tuthill filed. |
| Oct. 1, 1957 | | | Objections to Pltf's Interrogatories to Deft. and Tuthill filed. |
| Nov. 25, 1957 | | | Order Granting Motion to Dismiss. |
| Dec. 2, 1957 | | | Judgment of Dismissal filed. |
| Dec. 9, 1957 | Deft's Motion for Stay of Action filed. | Deft's Motion for Stay of Action filed. | Notice of Appeal filed. |
| Dec. 12, 1957 | Pltf's Motion for Order for Inspection of Deft's operation, books and records filed. | Pltf's Motion for Order for Inspection of Deft's operation, books and records filed. | |
| Dec. 28, 1957 | | | Motion for Stay of trial cases filed in Circuit Court. |
| Dec. 30, 1957 | Order Denying Deft's Motion for Stay filed. | Order Denying Deft's Motion for Stay filed. | |
| Jan. 8, 1958 | | | Circuit Court denies Motion for Stay. |
| Jan. 14, 1958 | Trial commences. | Trial commences. | |
| April 21, 1958 | Submitted. | Submitted. | |
| May 12, 1958 | Order Referring Case to Special Master for Accounting (Decision in favor of Pltf.) | Order Referring Case to Special Master for Accounting (Decision in favor of Pltf.) | |

Background.

The background facts are simple. North American owns a process patent No. 2,433,643; it licensed—non-exclusive—appellant to use the process. Royalty was payable quarterly—twenty days after the end of each quarter. Appellant became delinquent in payments, and on November 13, 1956, two actions were filed to recover royalties which had accrued to September 30, 1956 and were payable on October 20, 1956.

Appellant—defendant in one of those contract actions—was attempting to evade payment of royalties, and on October 22, 1956, it delivered a dual purpose notice to North American: (1) an alleged notice of repudiation; and (2) a notice of termination as permitted by the license agreement, effective January 1, 1957.

Appellant answered the royalty suit alleging, in affirmative defenses and cross-claims, that the process patent was invalid. Motions to Strike and to Dismiss were filed against these affirmative defenses and cross-claims, on the grounds, principally, that a licensee was estopped to urge patent invalidity in a contract action brought to recover accrued and unpaid royalties. The District Court granted these motions after receiving extensive briefs and oral argument.

Several months *after* the District Court made its ruling, holding that defenses of alleged patent invalidity were improper in the contract cases to recover royalties, appellant filed a new action. In this case appellant sought declaratory relief, declaring the invalidity of North American's process patent. The alleged charge of infringement, which is essential to establish a justiciable controversy, consists of statements by North American counsel, made

in oral argument to the Court and in briefs, in support of North American's Motion to Dismiss and to Strike the affirmative defenses and cross-claims in the answers in the contract cases.

Appellant claims that *at the time* the declaratory relief complaint was filed it was "reasonably apprehensive that defendant North American took the position that Sani-Top's activities constituted an infringement of the Beach patent, since this demand for an accounting included an indefinite period beyond" September 30, 1956. (App. Br. p. 14.) This is a ridiculous assertion. The court argument on April 8, 1957, clearly demonstrated to appellant that North American was claiming royalties, and an accounting in connection therewith, in the contract cases only for the period ending September 30, 1956. The declaratory relief complaint was filed July 9, 1957—three months *after* this court argument.

The Complaint.

The Complaint attempts to allege a justiciable or actual controversy consisting of charges by North American that appellant is infringing the North American process patent. These charges of infringement, says the complaint, are "embodied, inter alia, in certain statements made on behalf of defendant by its counsel, A. R. Tuthill, Esquire; by certain averments made by defendant in a Complaint filed against the present Plaintiff on November 13, 1956, in the District Court of the United States for the Southern District of California, Central Division . . .; and by certain statements made by and on behalf of Defendant in a document filed in said litigation No. 20723-TC, entitled Plaintiff's Statement of Reasons and Memorandum of Points and Authorities in Support of Motions to Strike

and Dismiss. Details of the charge of patent infringement thus made by Defendant are set forth in the attached Affidavit of Warren T. Jessup." [Tr. 4-5.]

The Jessup Affidavit.

This affidavit [Tr. 9-12], is relied upon as the *only* basis for the allegation that North American, *prior* to the filing, on July 9, 1957, of the declaratory relief complaint, charged that appellant infringed the patent. The alleged charge of infringement is contained in certain statements by counsel during court arguments and in court pleadings, as follows:

(1) On April 8, 1957, Tuthill, attorney for North American, spoke, "in support of a certain Motion to Dismiss and to Strike" in the action "brought by North American Aviation, Inc., as plaintiff, against Sani-Top, Inc., as defendant, to collect alleged royalties due under a certain license agreement." [Tr. 9.]

During this argument Tuthill said of Sani-Top, Inc., and Bonded Products Co., another licensee,

"It is a fabricator of the material. It provides the raw material. It uses the process. It bends the material." [Tr. 10.]

And again,

"Now the Defendant is using the process continuously and is not paying royalties. We believe that an accounting is necessary to determine the exact amount owing." [Tr. 10.]

(2) The *prayer* in the Complaint which is quoted in the Jessup affidavit [Tr. 11] states as follows:

"That an accounting be ordered to accurately determine the amount of all laminated sheet material post-

formed by defendant under said Process since August 20, 1951, and the amount of royalties or license fees payable by defendant to plaintiff.”

(3) The Jessup affidavit quotes from Plaintiff’s Statement of Reasons and Memorandum of Points and Authorities in Support of Motions to Strike and Dismiss as follows:

“Obviously, at the date of defendant’s purported rescission of the license agreement on October 22nd, 1956, plaintiff could, if it chose, have filed suit for infringement and the filing of such suit would, in law, constitute acquiescence in defendant’s rescission. However, plaintiff chose to consider at that date and until January 1st, 1957, the license agreement still in force and, hence, in accordance with *United Mfg. Co. vs. Holwin*, *supra*, plaintiff sought its relief under the license agreement.” [Tr. 11-12.]

The Tuthill Affidavit of September 17, 1957.

This affidavit [Tr. 13-30] incorporates the *full* transcript of Tuthill’s argument to the District Court on April 8, 1957. A reading of the entire argument—of which selected excerpts were lifted out of context by the appellant—makes it clear that the royalty actions were concerned with the period ending September 30, 1956. Not quoted by the appellant, are the following statements by Tuthill:

“The amount of royalty that we seek to recover in this action is for the quarter ending on September 30, 1956, not that quarter alone but over the antecedent quarters, based upon an accounting to establish the full amount of royalty which is payable for the time ending September 30, 1956.” [Tr. 20.]

* * * * *

“Therefore, all that we were entitled to recover under the Complaint as it was framed and filed was royalty payable during the period ending September 30, 1956. Those royalties were payable on October 20th.” [Tr. 20.]

* * * * *

“Now, as I say, there is a dispute in this case as to how these royalties are going to be calculated, but it is still a part of the action on the contract itself for the recovery of royalties.

“Now, the defendant is using the process continuously and is not paying royalties.

“We believe that an accounting is necessary to determine the exact amount owing.” [Tr. 22.]

“Remember, we are seeking to recover royalties in this case down to September 30th and not beyond that date.” [Tr. 23.]

* * * * *

“This, your Honor, is North American’s case on the contract for royalties to and including September 30th.” [Tr. 23.]

In Tuthill’s affidavit, filed as a part of the Motion to Dismiss and in answer to the affidavit of Jessup, Tuthill averred as follows:

“Several statements which I made during the course of this argument are referred to in the Affidavit of Warren T. Jessup dated July 9, 1957 filed in the above-entitled action, which said Affidavit is referred to in the Complaint therein in Paragraph (7) on pages 2 and 3.

“The argument to the court on April 8, 1957 and the memoranda of authorities then before the court all were directed to motion to dismiss and to strike cross-claims and counter claims interposed by the

defendants in the two cases (No. 20723-TC and No. 20724-TC) hereinabove referred to.

“The gist of the contentions advanced in behalf of North American Aviation, Inc., is that the complaints in those two actions sought to recover royalties under license agreements from their beginning dates to and including the quarter ending September 30, 1956 (See pages 5 and 6 of Transcript); the issues of patent invalidity were irrelevant to the action to the contract to recover royalties; that these alleged issues of patent invalidity were based on facts allegedly coming into existence subsequent to September 30, 1956, after which North American Aviation, Inc. did not seek to recover royalties; that for this reason, among others, the alleged issues of patent invalidity were irrelevant and the cross-claims and counter claims therefor were improper.

“The argument on April 8, 1957 and all statements made in connection therewith were directed therefore to a state of facts existing in the period during which North American Aviation, Inc., sought to recover royalties on and prior to September 30, 1956.

*“I categorically deny that I intended to state that subsequent to September 30, 1956, plaintiff herein was using the postforming process or that it was in any way infringing Patent No. 2,433,643.**

“In the answers by North American Aviation, Inc. to interrogatories in said referred-to cases (No. 20723-TC and 20724-TC), North American Aviation, Inc. made it clear that in those actions it sought to recover royalties to and including September 30, 1956; that it did not in those actions demand royalties or

*Emphasis is added throughout this Brief unless otherwise indicated.

an accounting for any period after January 1, 1957; that it did not charge that plaintiff herein had been using the process after January 1, 1957 as an infringer, in those actions.

“North American Aviation, Inc. did not in those cases, take any positions whatever with respect to whether the licensees were or were not obligated to pay royalties after September 30, 1956.

“In said two cases (Nos. 20723-TC and 20724-TC), an accounting is sought by North American Aviation, Inc. However, that accounting in those cases is sought for the period ending September 30, 1956. (See Transcript, pages 8-10.)”

Significantly, the Herzog affidavit has omitted an important sentence from Tuthill's quoted argument. Tuthill said:

“Now, the Defendant is a licensee, of this process. It is a fabricator of the material. It provides the raw material. It uses the process. It bends the material.” [Tr. 19.]

The beginning emphasized sentence of this series, was omitted by appellant. The significance of this omitted statement is that it clearly shows that Tuthill was discussing a state of facts existing at the time that appellant in fact was a licensee! During the entire argument Tuthill spoke primarily in the present tense. This was done naturally, since the argument was directed in its entirety to a state of facts which existed during the license period ending September 30, 1956, at which time Sani-Top *was* a licensee! As a matter of fact, appellant, at the time of this statement on April 8, 1957, was *not* a licensee;

this clearly appears from other portions of the argument.
[Tr. 23.]

Appellant has lifted another part of the argument out of its context. The argument states:

“3 (of the Motion to Strike) is directed to a part of the Second Affirmative Defense which alleges that the defendant is an infringer after October 22nd and that we must prosecute him on that basis. That we do not choose to do in this action. We may of course at a later date in another proceeding file an infringement case, but that is our choice and not the defendant’s choice.” [Tr. 24.]

The emphasized portion was not quoted by appellant. The omitted portion changes the entire sense and meaning of the statement which appellant quoted; clearly no threat of infringement is intimated here.

The brief filed by North American in support of the Motion to Strike and to Dismiss Directed to the Defenses in the answers based on alleged patent invalidity does not contain any threat of infringement. There [Tr. 11-12; Br. pp. 6-9] counsel was considering the legal sufficiency of a purported *unilateral* notice dated October 22, 1952, of repudiation or rescission of the license agreement; also, the remedies available to North American, *i.e.*, whether to accept the notice as a termination of the license, or, instead, to disregard it and treat the contract as still in force and sue for accrued royalties. [See Argument; Tr. 23-25.] No threat of infringement was even intimated here.

ARGUMENT.

The Motion to Dismiss the Declaratory Relief Complaint Was Considered by the District Court as a Motion for Dismissal for Lack of Jurisdiction and for Summary Judgment. Affidavits, as Well as Matters of Record in the Two Royalty Cases, Were Properly Considered by the District Court in Ruling on the Motion.

The District Court's Order on Defendant's Motion to Dismiss states:

"This cause having come before the court for hearing on defendant's motion, filed September 17, 1957, to dismiss under Fed. R. Civ. P. 12(b)(6) upon the ground that the complaint for declaratory relief fails to state a claim upon which relief can be granted; and the motion having been heard and submitted for decision as a motion for dismissal upon the ground of lack of jurisdiction over the subject matter under Fed. R. Civ. P. 12(b)(1) and 56(b); and it appearing to the court that:

"(1) Plaintiff has failed to allege an actual controversy between the parties (28 U. S. C. Sec. 2201);

"(2) Therefore, this suit is not within the subject-matter jurisdiction of this court over 'Cases * * * arising under * * * the Laws of the United States.' (U. S. Const. Art. III, Sec. 2.)

"Accordingly It Is Ordered that defendant's motion to dismiss is hereby granted." [Tr. 40.]

The Ninth Circuit has determined that affidavits may be used in ruling on a motion to dismiss; also, that as required by FRCP 12(b), a motion to dismiss, in which matters outside the pleadings are considered by the court, must be treated as a motion for summary judgment under

FRCP 56. (*Suckow Borax Mines v. Borax Consolidated* (9th Cir.), 185 F. 2d 196, 204-205 cert. den. 340 U. S. 943, reh. den. 341 U. S. 912; see also Barron and Holtzoff, *Federal Practice and Procedure*, Vol. 1, pp. 604-618.)

Further, under FRCP 43(e), a motion which is based on facts not of record may be heard "on affidavits presented by the respective parties."

Affidavits may be considered by the court in ruling on a motion for summary judgment for the purpose of determining if there is a "genuine issue as to any material fact." (FRCP 56(e); *Suckow Borax Mines v. Borax Consolidated*, *supra*.) And, if these affidavits *specifically* show that a *general* contrary allegation in a pleading is untrue, then "no 'genuine' issue remains for the trier of the facts." (*Suckow Borax Mines v. Borax Consolidated*, *supra*.)

Also, in ruling on the motion the District Court is permitted to "take judicial notice of its own records in other related cases." (Barron and Holtzoff, *Federal Practice and Procedure*, Vol. 3, p. 91.) Thus in *Ellis v. Cates* (4th Cir. 1949), 178 F. 2d 791, cert. den. 339 U. S. 964, reh. den. 340 U. S. 857), in ruling on motion for summary judgment in action for ejectment, the court properly "look(ed) to the record in the prior litigation." (793.) Also, in *Fletcher v. Evening Star* (Ct. App. D. C., 1942), 133 F. 2d 395, the court said, in ruling on a motion for summary judgment,

" . . . it is settled law that the court may take judicial notice of *other* cases including the same subject matter or questions of a related nature between the same parties." (395.)

The Record on This Appeal Is Not Complete. For This Reason the Judgment Should Be Affirmed.

“Every intendment should be in favor of the lower court’s judgment.” (*Hardt v. Kirkpatrick* (9th Cir. 1937), 91 F. 2d 875, cert. den. 303 U. S. 626, 82 L. Ed. 1088.) The court “cannot presume error. It must be made manifest. The presumption is the other way.” (*Clequot v. United States*, 70 U. S. 114, 141, 18 L. Ed. 116.) “It is elementary that appellate courts do not presume error, but grant relief only in cases where it is made *affirmatively* to appear that error has been committed.” (*Williamson v. Richardson* (9th Cir. 1913), 205 Fed. 245, 246.) “Doubts are to be resolved in favor of the judgment rather than against it.” (*Merryman v. Bourne*, 76 U. S. 592, 600, 19 L. Ed. 683.)

Moreover, it “is the appellant’s duty to bring up a record that discloses error.” (*Hardt v. Kirkpatrick*, *supra*.) And, error “will not be inferred from a doubtful statement in the record.” (*Fidelity & Deposit Co. v. Lindholm* (9th Cir. 1933), 66 F. 2d 56, 61.)

It also is to be presumed that “the District Court correctly decided all issues before it which might depend upon the factual evidence.” (*Heffron v. Western Loan and Building Co.* (9th Cir. 1936), 84 F. 2d 301, 305.)

“Since it is the appellant’s primary duty to submit a complete record, the presumption arising from the failure to make a proper showing must be one *unfavorable* to the contentions of the appellant.” (*Stepp v. McAdams* (9th Cir. 1937), 88 F. 2d 925, 928.) Also, if certain exhibits are not included, “the presumption is that the exhibits are not helpful to Appellant’s Cause.” (*Greco v. Haff* (9th Cir. 1933), 63 F. 2d 863, 864.)

The appellant has the burden, when fact questions are presented, of producing the *complete* reporter's transcript. "An appellant must include in the record all of the evidence on which the District Court might have based its findings. When this is not done, the judgment of the District Court must be affirmed." (*Watson v. Button* (9th Cir. 1956), 235 F. 2d 235, 238.)

In fact, in cases involving appeals from Orders, which would be justified by evidence taken or agreements made at a hearing, "the burden is upon the (appellant) . . . to include in the record on appeal a proper transcript of the hearing *to show that there was no such evidence or agreement.*" (*In re Chapman Coal Co.* (7th Cir. 1952), 196 F. 2d 779, 785.) If such is not done, the orders must be affirmed. (*In re Chapman Coal Co., supra.*) The *Chapman* case was affirmed by the 9th Circuit in *United States v. Vanegas*, 216 F. 2d 657.

In granting the motion—considered as a motion for summary judgment—the District Court "*impliedly* held that the pleadings, deposition, and admissions on file, together with the affidavits showed (1) that, with respect to the counterclaims, there was no genuine issue as to any material fact and (2) that appellee was entitled, as a matter of law, to a judgment dismissing the counterclaims." (*Walter W. Johnson Co. v. R. F. C.* (9th Cir. 1956), 230 F. 2d 479, 480-1.)

The following demonstrates the matters which were considered by the District Court in ruling on the Motion to Dismiss. This is the same court in which the two actions for royalties (20723-TC and 20724-TC) and the action for declaratory relief (83957-TC) were pending. All rulings in these three cases were made by the same District Judge.

1. In the Declaratory Relief case:
 - (a) The Complaint [Tr. 3-8].
 - (b) The Affidavit dated July 9, 1957, of Warren T. Jessup [Tr. 9-12].
 - (c) The Motion to Dismiss [Tr. 12-13].
 - (d) The Affidavit of Arch R. Tuthill dated September 17, 1957 [Tr. 13-16]; including the Partial Reporter's Transcript of Proceedings on April 8, 1957, in the consolidated District Court cases of North American Aviation, Inc., vs. Sani-Top, Inc., and Bonded Products Co. (20723-TC; 20724-TC) [Tr. 16-33].
 - * (e) Interrogatories to Defendant [Tr. 30-31].
 - (f) Defendant's Objections to Plaintiff's Interrogatories to Defendant [Tr. 37-39].
 - (g) Deposition Upon Written Interrogatories to Tuthill [Tr. 31-32].
 - * (h) Defendant's Objections to Plaintiff's Interrogatory to Tuthill [Tr. 33-36].
 - * (i) Statements of Reasons in Support of Motion to Dismiss and Objections to Interrogatories.
 - * (j) Plaintiff's Opposition to Motion to Dismiss.
 - * (k) Defendant's Reply to Plaintiff's Opposition to Motion to Dismiss.
2. In the consolidated royalty cases—judicial notice, or by affidavit references:
 - * (a) The Complaints.
 - * (b) The Answers.
 - * (c) The Motions by North American to Dismiss and to Strike, directed to defenses of alleged patent invalidity in the Answers.

- *(d) North American's "Statement of Reasons and Memorandum of Points and Authorities in Support of Motions to Strike and Dismiss," filed Feb. 1, 1957.
- *(e) Answer to Plaintiff's Motion to Dismiss Counter-Claims and Motion to Strike Portions of Answer and Cross-Claim, filed Feb. 18, 1957.
- *(f) North American's "Reply to Defendant's Memorandum in Opposition to Plaintiff's Motion to Dismiss Counter-Claims and Motions to Strike Portions of Answer and Cross-Claim," filed March 21, 1957.
- *(g) Supplemental Memorandum of Authorities filed April 8, 1957, by defendants.
- *(h) North American's "Answer to Defendant's Supplemental Memorandum" filed April 15, 1957.
- *(i) North American's "Answers to Certain of Defendants' Interrogatories" filed April 4, 1957.

The items marked * are *not* included as a part of the record on this appeal; they were, however, before the District Court in ruling on the motion to Dismiss.

The transcript of the Argument to the Court on April 8, 1957, of the Motion to Dismiss directed to the answer in the royalty cases, is *not* complete. The argument of counsel for the appellant (defendant there) is omitted! [Tr. 27.] And, North American's "Answers to Certain of Defendants' Interrogatories" (Item 2(i)) are omitted. Both of these were considered by the District Court in ruling on the Motion to Dismiss the Declaratory Relief Action—and *could* contain statements or evidence supporting the Judgment of Dismissal. Since appellant has not

produced a proper transcript "to show that there was no such evidence" the Judgment must be affirmed. (*United States v. Vanegas* (9th Cir. 1954), 216 F. 2d 657, 658.)

All of these omitted items were considered by the District Court in its implied finding that "there was no genuine issue as to any material fact and that appellee was entitled, as a matter of law to a judgment dismissing the complaint." (*Walter W. Johnson v. R. F. C.* (9th Cir. 1956), 230 F. 2d 479, 480-1.)

Obviously, any matters occurring subsequent to November 25, 1957—the date of the Order Granting the Motion to Dismiss the Declaratory Relief Complaint—were not before the District Court when the ruling was made. Such subsequent matters clearly have no bearing on the correctness of the District Court's ruling. Notwithstanding this obvious fact, appellant attempts to rely on its own inaccurate and incorrect (see p. 1, *supra*) version of the Motion and Order, on December 30, 1957, in the consolidated cases, for Inspection.

An Actual Case or Controversy Is Essential for Federal Jurisdiction of a Declaratory Relief Action.

The Federal Declaratory Judgment Act was adopted in 1934. It provides that in "a case of *actual* controversy" the Federal Court "*may*" entertain a declaratory relief suit. (28 U. S. C. A., Sec. 2201.)

In *Public Service Commission v. Wykoff*, 344 U. S. 237, 97 L. Ed. 291, the history and limits of the new remedy were discussed.

"In *Aetna Life Ins. Co. v. Haworth*, 300 US 227, 81 L ed 617, 57 S Ct 461, 108 ALR 1000, Mr. Chief Justice Hughes used the whole catalogue of familiar phrases to define and delimit the measure of this new

remedy. If its metes and bounds are not clearly marked, it is because his available verbal markers are themselves elastic, inconstant and imprecise. It applies, he points out, only to 'cases and controversies in the constitutional sense' of a nature 'consonant with the exercise of the judicial function' and 'appropriate for judicial determination.' Each must present a 'Justiciable controversy' as distinguished from 'a difference or dispute of a *hypothetical* or *abstract* character. . . . The controversy must be *definite* and *concrete*, touching the legal relations of parties having adverse legal interests. . . . It must be a *real* and *substantial* controversy admitting of specific relief through a decree of a conclusive character, as distinguished from an opinion *advising* what the law would be upon a hypothetical state of facts.' The relief is available only for a 'concrete case admitting of an immediate and definitive determination of the legal rights of the parties.' Id., at 240, 241.

* * * * *

"Such differences of opinion or conflicts of interest must be '*ripe for determination*' as controversies over legal rights. The disagreement must not be nebulous or contingent but must have taken on fixed and final shape so that a court can see what legal issues it is deciding, what effect its decision will have on the adversaries, and some useful purpose to be achieved in deciding them." (Pp. 295-296.)

The 9th Circuit said, in *Garcia v. Brownell* (1956), 236 F. 2d 356:

"Unless an actual controversy exists, the District Court is without power to grant declaratory relief. *Mere possibility, even probability*, that a person may in the future be adversely affected by official acts not yet threatened does *not* create an '*actual* controversy'

which is a prerequisite created by the clear language of the statute if it be sought to maintain an action under Section 2201, Title 28 U.S.C.A.” (Pp. 357-358.)

“Continuing *apprehension* of appellant that some right might be violated, is *not* synonymous with continued existence of the controversy. . . .” (Pp. 359-360.)

Facts Must Be Alleged Showing the Existence of an Actual Controversy. Mere Apprehension of Infringement Litigation Is Not Sufficient.

The allegation—standing alone—that an actual controversy exists as to the validity and scope of a patent “. . . is a mere averment of a legal conclusion. It is not sufficient to support the jurisdiction of the court.” (*General Electric Co. v. Refrigeration Patents Corp.* (D. C. N. Y., 1946), 65 Fed. Supp. 75; see also *Ohio Casualty Company v. Marr* (10th Cir., 1938), 98 F. 2d 973.)

The distinguished author, Borchard, in his work on Declaratory Judgments, second edition 1941, states:

“*Justiciability, however, is hardly possible before the alleged infringer or his customers or dealers have been notified of the patentee’s claim, however informal the method of notification or change. The question has arisen whether such claim or notice or charge should be required, and whether it ought not to be possible, as in certain foreign countries, for a manufacturer, definitely contemplating making and selling a certain article, to bring an action against the owner of a possibly conflicting patent for a declaration that his contemplated article does not infringe. An early adjudication of such an issue might prevent much economic waste and useless expenditure of money.*

The patentee himself, desiring to enjoin an infringement, need give no advance notice that his patent even exists. And yet, *it seems best to limit declaratory relief for the infringer to cases in which an adversary claim has been made against him*, though it may, it is believed, apply to an article not yet manufactured but only about to be manufactured. *This requirement, present in practically all the adjudicated cases*, refutes the fear that patentees might be harassed by prospective infringers and be obliged continually to defend their patents. *In other words, the mere existence of the patent is not a cloud on title, enabling any apprehensive manufacturer to remove it by suit.* It requires an assertion of right under the patent to place the alleged infringer in gear to join issue and challenge the title."

This language by Borchard has been quoted in numerous cases. Decisions, hereafter discussed, support this distinguished author's conclusion that declaratory relief is limited "to cases in which an adversary claim has been made" and "the mere existence of the patent is not a cloud on title, enabling any apprehensive manufacturer to remove it by suit."

A Stated Threat by the Patentee of Suit for Infringement Is Required to Create an Actual Controversy. Such Does Not Exist in This Case.

In *Bliss v. Cold Metal* (D. C. Ohio, 1955), 137 Fed. Supp. 676, the court pointed out, in characterizing decisions in these situations, that "all of the cases cited and discovered turn upon a stated threat of suit for infringement." (678.)

And, appellant cannot conjure up an actual controversy by merely alleging that it is using the process—*i.e.*, that it is an infringer. Instead, affirmative threatening action by North American is required. Thus, in *National Hairdressers' v. Philad Co.* (D. C. Del., 1943), 3 F. R. D. 299 the plaintiff alleged that it was an infringer. The defendant, however, had never asserted that plaintiff was an infringer and had not threatened plaintiff with suit.

"It follows that National as a direct or contributory infringer cannot maintain on the pleading as now constituted an action under the Declaratory Judgments Act. (Citing authorities)" (200.)

A fortiori, the mere assertion by ~~plaintiff~~^{Appellant} made *after* the filing of the declaratory relief complaint that it is using the same postforming process, that it used while licensed, falls far short of creating a justiciable dispute.

And, the complaint speaks as of the date of its filing—in this case July 9, 1957—and facts occurring *thereafter* cannot cure a defective complaint. (*Bonner v. Elizabeth Arden, Inc.* (2nd Cir., 1949), 177 F. 2d 703; *Kirk v. Culley*, 202 Cal. 501, 261 Pac. 994; *Walton v. County of Kern*, 39 Cal. App. 2d 32, 102 P. 2d 531; *Wiersma v. City of Long Beach*, 41 Cal. App. 2d 8, 106 P. 2d 45.)

Events occurring *after* the filing of the complaint for declaratory relief, which may establish actual controversy at such subsequent time, do not establish an actual controversy in existence at the time the antecedent declaratory relief case was filed.

Thus, an infringement complaint filed by the patentee *after* the filing of the Declaratory Relief complaint *cannot* establish a controversy at the time the antecedent Declaratory Relief action was filed. This was the hold-

ing in *Hart v. Recordgraph* (D. C. Del., 1947), 73 Fed. Supp. 146, where the court said,

“the contents of the New York complaint, *subsequently* filed, *cannot establish the existence of the controversy required in the Delaware complaint, antecedently* filed. A complaint must stand or fall upon its own merits and *its very foundational element of a controversy cannot be solely furnished by subsequent happenings.*” (149)

In *Hooper v. Langston* (D. C. N. J., 1944), 56 Fed. Supp. 577, in a declaratory relief action attacking a patent, *a subsequent infringement suit filed after the declaratory relief action was held to be irrelevant*, the court saying, “anything occurring subsequent to the filing of the complaint in the instant case cannot be considered, in this court.” (582)

In *Stevenson v. Stevenson* (7th Cir., 1957), 249 F. 2d 203, the court emphasized that the plaintiff “must show that there was a claim of adverse interest and the existence of a justiciable controversy *at the time that the complaint was filed.*” (205)

For the reasons announced in these cases the Interrogatories which were filed by appellant *after* the commencement of the declaratory relief action were irrelevant and improper. They were filed for the purpose of attempting to create a new cause of action where, in fact, none existed at the time the complaint for declaratory relief was filed.

Consistent with the foregoing is the established principle that “a plaintiff’s right to recovery depends upon his right at the inception of the suit and the non-existence of a cause of action when the suit is brought is a fatal defect which cannot be cured by the accrual of a cause of action pending suit.” (*Rohm v. Permutit Co.* (D. C. Del., 1953), 114 Fed. Supp. 846-848.)

General Contentions Between the Parties or Their Counsel Do Not Establish an Actual Controversy Within the Meaning of the Declaratory Judgment Act.

“General contentions between the parties which have not become a definite and concrete controversy will not suffice.” (*Chicago Pneumatic Tool Co. v. Hughes Tool Co.* (D. C. Del., 1945), 61 Fed. Supp. 767, 772, cert. den. 329 U. S. 781; and *Board of Commissioners v. Cockrell* (5th Cir., 1937), 91 F. 2d 412, 413.)

In *Research Electronics & Devices Co. v. Neptune Meter Co.* (D. C. N. Y., 1957), 156 Fed. Supp. 484, plaintiff filed suit for infringement of *three* of its patents. Defendant counterclaimed for a declaratory judgment declaring invalid certain *additional other* patents. Defendant claimed the actual controversy as to these *other* patents was established by a letter written to defendant by plaintiff's attorney, referring to these *other* patents. The attorney's letter stated, *inter alia*:

“In addition, there are a number of other patents and pending patent applications under the control of my client which may be infringed by equipment made or about to be made by you or your above mentioned subsidiary.

“This is to advise you that my client intends to firmly protect its patent rights against any and all infringements, and in their behalf I must request you to desist from further infringement on their patent rights and to account for past infringement.” (485)

The court held this letter was not “specific and *definite* enough so that it can be considered a threat sufficient to provoke a justiciable controversy.” (485) “If it had

been the *intention* to charge an infringement of all patents," the attorney would not have said "that other patents *may* be infringed." (485)

The court said, in striking the counterclaims:

"If we are to give meaning and effect to *all* the portions of the letter we must construe the reference to '*other patents*' as nothing more than an attempt to place the defendants on notice that some time in the future upon plaintiffs' further examination a subsequent charge may be lodged as to these patents. Cf. *Chicago Pneumatic Tool Co. v. Hughes Tool Co.*, supra, 61 F. Supp. at page 772. Such notice does not evidence a *present and existing controversy*. For the court to take jurisdiction in the instant case would mean that it might find itself passing upon moot and academic questions." (485-486)

A fortiori, on this appeal, *all* of the argument by North American's counsel must be considered; not merely isolated portions thereof, lifted out of context.

In *Tuthill v. Wilsey* (7th Cir., 1950), 182 F. 2d 1006, the dismissal of a complaint for declaratory relief alleging patent invalidity, was sustained. Wilsey sued Tuthill in a pending state court action to recover accrued royalties under a license agreement. In this state case Wilsey alleged Tuthill used the patent. Later Tuthill brought declaratory relief in the Federal Court against Wilsey. To sustain his allegation that Wilsey had charged Tuthill with infringement, Tuthill pointed to allegations by Wilsey in her pleadings in the State Court action in which she alleged that "pumps theretofore made and sold (by Tuthill) embodied the alleged patented inventions covered by the . . . patent." (1008)

The Federal Court, in ruling on the Motion to Dismiss inspected “the pleadings and exhibits . . . including the entire record in the state court proceeding up to that point (and) found that there was no justiciable case or controversy under the patent laws and therefore dismissed the action.” (1008)

The 7th Circuit affirmed—noting that the allegations in the pleading filed in the State action charging Tuthill with using the patented invention, were “much more easily construed as an assertion of permissive use relied upon by (Wilsey) to support her claim to the royalties provided for in the contract than as a charge of wrongful use or infringement.” (1008)

A fortiori, the statements by counsel for North American, which were directed to the issues in the contract actions to recover royalties, are to be “construed as an assertion of permissive use . . . to support (North American’s) claim to the royalties . . . (rather) than as a charge of wrongful use or infringement.” This was the construction adopted by the District Court—it is reasonable and it should be approved by this Circuit Court.

In *Hartford National B. & T. Co. v. Crowley & Co.* (3rd Cir., 1955), 219 F. 2d 568, a declaratory relief count was dismissed since the defendant’s statements did not create an actual controversy. Plaintiff charged that defendant’s similar product infringed certain of plaintiff’s patents; defendant, who also held a patent, replied defensively, stating, in effect, that its product did not infringe and that it was protected by the defendant’s own patent. Plaintiff contended that the effect of this statement was to charge that plaintiff’s product infringed defendant’s patent.

The Court pointed out that plaintiff “may fear that at some time in the future (defendant) *may* also think the products are identical and at that time *might* charge infringement.” (Emphasis by the Court.) However, says the Court, plaintiff’s “fears are merely conjectural. By no twist of logic or words can (defendant’s) alleged assertions alone be read to mean what (plaintiff) insists they mean.” (571.)

Thermo-Plastics Corporation v. International Pulverizing Corporation (D. C. N. J., 1941), 42 Fed. Supp. 408, involved an alleged controversy in which the defendant patentee talked to a third person. That person filed an affidavit, on motion for summary judgment, stating his “understanding” from the talk that if he continued to use a certain grinding mill “he would be subjected to an action for patent infringement.” This was denied in the patentee’s affidavit. The Court, granting the motion for summary judgment, emphasized that “no holder of a patent should be put to the expense of defending a suit by another person or sundry persons . . . unless such person is or may be damaged by *affirmative* acts of the patent holder.” (410.) Further, “investigation or inquiry (by a patentee) does not seem improper nor does it contain a threat of infringement.” (410.)

In *Stevenson v. Stevenson* (7th Cir., 1957), 249 F. 2d 203, plaintiff’s complaint for declaratory relief was dismissed. Plaintiff, owner of remainder interests in a trust, alleged that the life beneficiaries “claim an interest in the trust remainders” which has “cast a cloud on plaintiff’s title.”

To support the alleged adverse claim, an affidavit was filed by plaintiff's attorney stating that he was informed by the attorney for the mother of the life beneficiaries that the latter "were definitely making a claim against the remainder interest in the trusts through a Milwaukee lawyer by the name of Roger D. McIntyre." (207.) There was, however, no "proof of any claim made by defendants." (207.) Under these circumstances the Court said that "plaintiff will not be permitted to impose upon (the defendants) the defense of a lawsuit under color of a quiet title proceeding." (207-208.) Further, said the Court, "there is no actual controversy calling for a declaration of the rights of the parties under the Declaratory Judgment Act." (208.)

The Seventh Circuit cites, with approval, *Caterpillar Tractor Co. v. International Harvester Co.* (9th Cir.), 106 F. 2d 769, 772, in which the rule was announced that the declaratory judgment Act requires "an actual controversy as distinguished from a prayer for an opinion advising what the law would be upon a hypothetical state of facts"; and further, "that an actual controversy is *not* involved where a person merely apprehends or fears assertions of rights against him by another." (208.)

The Court, in the *Stevenson* case, concludes by stating:

"Simply stated, it is a general rule that where one person asserts a right and another is silent in regard thereto, there is no controversy." (208.)

In *Johnson v. Interstate Transit Lines* (10th Cir., 1947), 163 F. 2d 125, the dismissal of a declaratory relief complaint was affirmed. Plaintiff, a veteran, sought to

clarify his seniority status. The Court emphasized that to invoke this remedy "there must be no uncertainty that the loss will occur or that the asserted right will be invaded." (128-129.) To meet this requirement plaintiff relied upon a statement by defendant's counsel made at the argument of the motion, that:

"Business is falling off with the defendant and we are having more drivers on what is known as the extra board, men who can serve only part time; consequently the defendant may be seriously prejudiced by the delay."

This statement by counsel was not "sufficient to satisfy the requirement that the occurrence of the loss must be definite and certain." (129.)

Willing v. Chicago Auditorium, 277 U. S. 274, 72 L. Ed. 880, involved a statement by defendant to plaintiff that "his counsel had advised him that the lessee (plaintiff) had no right to tear down the auditorium building." This statement, which was not made as a threat, did not create a controversy, as to the plaintiff's right to tear down the building.

"The fact that the plaintiff's desires are thwarted by its own doubts, or by the fears of others does not confer a cause of action. No defendant has wronged the plaintiff or has threatened to do so." (289-290.)

Tested by the foregoing decisions, it is clear that the statements made by counsel for North American in argument and brief cannot possible be interpreted or construed to amount to a "stated threat of suit for infringement."

Appellant's Cases Are Not Controlling.

The facts in respect of "actual" controversy appearing in the decisions cited by appellant are completely different from those in this case. Hence, these decisions are not controlling. These cases are listed in the following table.

| Case | Defendant's (Patentee's) Acts Creating a Justiciable Controversy |
|--|--|
| <i>Caterpillar Tractor Co. v. International Harvester Co.</i> , (9th Cir., 1939), 106 F. 2d 769. | Defendant wrote plaintiff asserting that plaintiff's tractors "were infringements of a number of our patents" and requesting the discontinuance thereof and insisting upon "enforcement of our rights in the matter." |
| <i>Crowell v. Baker Oil Tools</i> , (9th Cir., 1944), 143 F. 2d 1003. | Defendant had previously filed suit against plaintiff charging him with infringement; also defendant had sued others for infringement. |
| <i>Technical Tape Corp. v. Minnesota Mining and Manufacturing Co.</i> , (2nd Cir., 1952), 200 F. 2d 876. | When negotiations for a license broke down, defendant warned plaintiff that if it made the product "it would face a highly expensive law suit." Defendant prosecuted other infringers successfully; also defendant had sued plaintiff for infringement of the same patent in another district. |

| <i>Case</i> | Defendant's (Patentee's) Acts Creating a Justiciable Controversy |
|---|---|
| <i>Dewey & Almy Chemical Co. v. American Anode</i> , (3rd Cir., 1943), 137 F. 2d 68. | Plaintiff sought a license and failed. Defendant sued an infringer who used the same "process" as plaintiff. The defendant publicly asserted "such a scope for its patent claims as to embrace" plaintiff's method, and that defendant "had to put a stop" to manufacturers infringement of the patent. |
| <i>Milkway Knitting Mills v. Sanson Hosiery Mills</i> , (D. C. Penn., 1952), 108 Fed. Supp. 5. | Plaintiff sued an infringer of its patent. Thereafter defendant licensed said infringer to make a stocking under defendant's patent. Also, defendant asserted publicly that stockings such as plaintiff's infringed defendant's patent. Also defendant in an infringement action obtained a court opinion that plaintiff's stocking "embodied 'the dominant motif' " of defendant's patent. |
| <i>Rhodes Pharmacal Co. v. Dolcin</i> , (D. C. N. Y., 1950), 91 Fed. Supp. 87. | Defendant wrote plaintiff and plaintiff's customers that defendant's patent had " 'broad generic' claims" and stated that one who "makes or uses" a product |

| Case | Defendant's (Patentee's) Acts Creating a Justiciable Controversy |
|---|---|
| <i>Chicago Metallic Mfg. Co. v. Katzinger</i> , (7th Cir., 1941), 123 F. 2d 518. | covered by the patent, infringes. Also, defendant threatened infringement action in trade journals. |
| <i>Lionel v. De Filipites</i> , (D. C. N. Y., 1936), 15 Fed. Supp. 19. | <i>After</i> termination of a license agreement defendant demanded royalties from a <i>former licensee</i> "on account of the manufacture and sale" of a new product which defendant claimed was covered by the patent. |
| <i>National Transformer Corp. v. France Mfg. Co.</i> , (D. C. Ohio, 1952), 124 Fed. Supp. 503. | <i>After</i> termination of a license agreement, defendant patentee sued plaintiff in the state court for royalties on certain articles manufactured by plaintiff <i>after</i> the termination of the license. |
| <i>Bliss v. Cold Metal Products Co.</i> , (D. C. Ohio, 1955), 137 Fed. Supp. 676. | "Defendant made a claim that his patent was being infringed by notice to the present plaintiff's predecessor." The present plaintiff's product was the same as his predecessor. Defendant <i>wrote plaintiff</i> a letter which asserted that the "use in this country of 4-high rolling mills <i>similar</i> to that shown in Exhibit B infringes" its patent and |

| <i>Case</i> | Defendant's (Patentee's) Acts Creating a Justiciable Controversy |
|--|--|
| <i>Telechron v. Parissi</i> , (D. C. N. Y., 1951), 97 Fed. Supp. 355. | that "the manufacture and sale of such mills by Bliss constitutes contributory infringement of said patent." Defendant sued plaintiff in the state court for unjust enrichment based upon use of defendant's patent. Also defendant's counsel had written to plaintiff's representative stating that the latter's product "clearly infringes at least two patents." From this letter, the court said, it could be inferred "that the matter of infringement can not be settled except by further litigation." |
| <i>Florescent Fabrics, Inc. v. Ganter & Mattern Co.</i> , (D. C. S. D. Cal., 1950), 86 U. S. P. Q. 67 (not reported in F. 2d). | Although facts of the case are not in the opinion, as the existence of an actual controversy was not in issue, it appears that the defendant made statements to the trade that a certain "line of goods" manufactured by plaintiff infringed its patent. |

Altwater v. Freeman, 319 U. S. 359, 87 L. Ed. 1450, does not as appellants contend, decide "that the very

bringing of a suit on a license contract creates a justiciable controversy as to whether the patent is or is not infringed by the operations of the licensee or ex-licensee.” (App. Br. p. 16.)

This case is not controlling because:

1. A controversy had existed in fact for many years between plaintiff and defendant concerning the validity of plaintiff's patent and whether a similar article manufactured by defendant infringed the patent. This controversy resulted in an infringement action filed years before in which defendant's product was held to infringe and defendant was ordered by injunction to pay royalties to plaintiff (*Freeman v. Altvater* (8th Cir., 1933), 66 F. 2d 506).

2. Plaintiff's patent was subjected to infringement action by third parties with the result that twenty-three claims were declared invalid and three valid (*Premier Machine Co. v. Freeman* (1st Cir., 1936), 84 F. 2d 425).

3. Plaintiff surrendered the original patent and obtained two reissue patents, and demanded royalties from defendant on the claim that one of the reissue patents was covered by the license agreement. Defendant refused, claiming the license agreement had been terminated. Plaintiff then sued for royalties, an accounting and to *enjoin defendants from manufacturing the alleged patented product*. This action thus continued the long standing controversy concerning the plaintiff's patent.

Only one of the reissue patents was placed in issue by plaintiff; however, defendant counter claimed for declaratory relief adjudging that *both* reissue patents were invalid.

The Supreme Court held that defendant was entitled to this relief because of the long standing controversy which was “raging, even apart from the continued existence of the license agreement” (p. 364); also, because by this means defendant sought to be relieved from royalties required by the “compulsion of an injunction decree” and to “lift the heavy hand of threats and tribute” (364); also because the “dispute went *beyond* the single claim and the particular accused devices” (364) involved in the plaintiff’s case; also because the royalties claimed were for a period *after* the termination of the license agreement.

Appellant cites the cases of *Clair v. Kaster* (2nd Cir., 1945), 148 F. 2d 644, and *Salem Engineering Co. v. National Supply Co.* (D. C. Penn., 1958), 75 Fed. Supp. 993, for the proposition that “if a manufacturer fears that he will be charged to infringe, he can always inquire of the patentee, and if the answer is unsatisfactory, he can bring an action for declaratory judgment.” (App. Br. p. 14.) However, these cases do *not* decide this point.

Both cases involve actions for *infringement* commenced by the patentee. The defendants were *not* licensees. The issue was whether the patentees were barred by laches from the delay in filing suit after they made infringement threats to the defendants or their customers. The court held in both of these cases that “the defense of laches was without merit” and that a “patentee is not bound to assert his claims to their fullest extent by suing every conceivable infringer.”

These cases are not in point since:

1. They are not actions by a manufacturer for declaratory relief. Instead, they are infringement suits brought by the patentees.

2. No issue was presented as to an “actual” or “justiciable” controversy.

3. No issue was presented as to whether inquiry by an apprehensive manufacturer of the patentee would require the patentee to answer or that the response would be sufficient to be the “stated threat of suit for infringement” which is necessary to support a declaratory relief action.

4. The quoted statement by the court (App. Br. p. 14) is pure *obiter* since the issue was not before the court.

5. The quoted statement by the Court (App. Br. p. 14) *assumes* that the patentee gives an “unsatisfactory” answer to the inquiring manufacturer. A reasonable assumption is that such “unsatisfactory” answer is a direct and intended threat of infringement action. If such is the court’s meaning, declaratory relief would be proper.

6. Appellees filed their Interrogatories *after*—not before—the declaratory relief action was filed. As hereinbefore demonstrated appellant cannot rely on such a belated inquiry—assuming (which it did not) it produced an “unsatisfactory” answer—to create a cause of action where none existed at the time the complaint was filed.

The District Court, in Its Lawful Discretion, Dismissed the Petition for Declaratory Relief. This Discretionary Ruling Should Not Be Disturbed on Appeal.

The Act “confers a *discretion* on the courts rather than an absolute right upon the litigant” (*Public Service Commission v. Wykoff*, 344 U. S. 237, 97 L. Ed. 291).

In *Garcia v. Brownell* (9th Cir., 1956), 236 F. 2d 356, 359, the court quoted from the case of *Eccles v. Peoples Bank*, 333 U. S. 426, 431, 92 L. Ed. 784 as follows:

“A declaratory judgment, like other forms of equitable relief, should be granted only as a matter of judicial discretion, exercised in the public interest. (Citations.) It is always the duty of a court of equity to strike a proper balance between the *needs of the plaintiff* and the *consequences of giving the desired relief*.”

In *Cruz-Sanchez v. Robinson* (1957), 249 F. 2d 771, the Ninth Circuit recently said that “the grant or dismissal of a petition for declaratory judgment is within the discretion of the judge. Upon this ground there would be no basis for us to interfere with the adjudication of the District Court.” (774)

The District Court’s ruling was proper because the “needs of the plaintiff” do not require declaratory relief; also the “consequences of giving the desired relief” results in confusion and duplication of issues in the royalty contract cases.

In the first place no threat had been made by North American to prosecute appellant for infringement; neither had North American in any way interfered with appel-

lant's business operations. And "apprehension . . . that some right *might* be violated, is not synonymous with . . . controversy." (*Garcia v. Brownell* (9th Cir., 1956), 236 F. 2d 356, 359-360.)

In the next place, the issue of *scope* of patent was presented in the pending royalty contract cases. This same issue was pleaded in the declaratory relief complaint. The determination of that issue in the contract cases, if favorable to appellant, could free appellant from any possible claim of infringement. Thus, the present effort to obtain declaratory relief is clearly premature.

In the next place, appellant injected the issue of patent invalidity in its answer in the royalty contract case. While it is true that these defenses were stricken, nonetheless this ruling is subject to review on any appeal from the final judgment in that case. On such appeal this Ninth Circuit will determine whether the District Court correctly excluded the alleged patent invalidity as a defense to the contract claim for royalties. Under these circumstances, to permit the filing of a separate action for declaratory relief, alleging the identical patent invalidity, would result in confusion and duplication of issues and proceedings.

A comparable situation was presented to the Third Circuit in *Magee-Hale Park-O-Meter Co. v. Vehicular Parking Limited* (3rd Cir., 1950), 180 F. 2d 897. Here, a declaratory relief complaint seeking an adjudication of patent invalidity was filed during the pendency of an anti-trust case brought by the United States against the defendant patentee. The plaintiff had intervened in the antitrust case and moved for summary judgment, claiming patent invalidity; the District Court did not rule on this motion.

Thereafter, the plaintiff filed this declaratory relief action, dismissal of which was affirmed.

The Third Circuit could *not* “say that the Court below abused its discretion in dismissing the complaint.” (899) The fact that issues of patent invalidity and scope of patent were presented by plaintiff as the intervenor in the separate antitrust litigation was controlling. Proper procedure required that it be first determined in the antitrust case whether these issues could be completely litigated there, and that until such was determined by a final judgment, the filing of the separate declaratory relief action was inappropriate.

Conclusion.

The judgment should be affirmed, with costs.

Dated May 27, 1958.

Respectfully submitted,

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